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SUBJECT: GOE LOOKS TO RAISE CROP PRICES AND STIMULATE CULTIVATION

11. (SBU) Key Points

-- The GOE has announced that, as part of its support for farmers and rural communities, it plans to raise crop procurement prices by 20-25%

-- These price hikes would apply to government purchases of five "strategic commodities" and, with the exception of rice, would maintain prices substantially above international market prices.

-- Despite much fanfare about the initiative, the GOE has yet to publish final details or a timeline for implementation.

-- Industry participants suggest delays are preventing farmers from making informed planting decisions in the current season.

-- Because of local consumption patterns and the private sector's reliance on imported agricultural products, the impact of this program is limited and local and is driven by political rather than economic decision-making.

12. (U) The GOE has announced plans to increase procurement prices in an effort to stimulate cultivation and market supply for a number of crops. The proposal, prepared by the Ministry of Agriculture for discussion in an inter-ministerial committee formed for this purpose, would increase procurement prices by 20-25%. These procurement prices, some of which are currently below international market prices for agricultural commodities, govern the prices paid by the GOE for the five "strategic" crops. These crops, wheat, corn, rice, sugar cane, and cotton are purchased by the government and used in government food subsidy programs and in state-owned food industries. Raising procurement prices is intended to stimulate the agricultural sector, which has lagged behind nearly all other sectors of the economy in recent years.

13. (U) However, only about 40 percent of local wheat production is purchased by the government and 10-15 percent of locally produced corn. The government purchases 100 percent of the sugar cane harvest. In recent years, the government and government-owned enterprises have not directly purchased rice and cotton from farmers. The procurement price for cotton acts more as an indicator price for farmers and traders. Wheat and corn that are not purchased through GOE programs are generally consumed on-farm as imported product is cheaper and generally better quality.

14. (U) In the recent annual party conference of the ruling National Democratic Party, and in a subsequent speech to a joint-session of People's Assembly and Shura Council, Egyptian President Hosni Mubarak has called for more government support to farmers and giving priority to rural development. The government controlled press announced that the full details of the new procurement price scheme would be announced shortly after Mubarak's address on November 21, though to date no details or implementation schedule have been announced.

15. (U) The most recent proposal would set new price levels for GOE purchases to above world market prices to encourage farmers to cultivate a higher volume of these crops. The proposed prices reported by the government press as being suggested in the draft legislation are as follows: wheat--LE270 (US\$49.50) per ardeb (150 kg) or US\$330 per ton versus US\$230 per ton CIF Egypt for imported wheat, corn--LE200 (US\$36.70) per ardeb (140 kg) or US\$262 per ton versus US\$220, cotton--LE898 (US\$164.80) per kantar (45 kg) or US\$1.66 per pound, sugar cane--LE200 (US\$36.7) per ton, and paddy rice--LE1500 (US\$275.20) per ton (Note: The wheat and corn prices are substantially above import prices for these commodities as are the sugar and cotton prices. The new higher procurement price for rice is significantly below international prices, and the GOE has implemented export controls to prevent rice exports and maintain this price gap. The low rice price helps limit the production of rice, which consumes relatively large amounts of water, and keeps down government expenditures on the rice component of the subsidized food basket. End note.) Despite much coverage in the press, the GOE has yet to issue any final decisions on these procurement price changes.

16. (SBU) Some land owners have criticized the slow pace of GOE action since the official announcement. Assem Doss, a landowner and the manager of Yara Agri Trade Misr, the local subsidiary of a large agricultural fertilizer company, told us that the announcement of procurement price increases at the NDP conference was strategically timed to promote the image of the government as a supporter of farmers. Doss suggested that increasing the prices paid for crops is a more efficient method to support farmers than subsidizing seed and fertilizers. He added that the government should announce procurement prices prior to the planting season for each crop so that the farmers can make reasonable growing-cycle decisions. The GOE announcement in November, he added, came after farmers had already decided what to grow, and the decisions for the current growing season were made based on expectations of lower prices. He concluded that if the proposed prices are not made official soon, the announcement will be of little value to farmers.

17. (SBU) According to Mohamed El Bastawisy, head of the Commercial Affairs division of the Alcotan Cotton Trading & Export Co., the cotton industry in Egypt faces stiff competition from cheap lower-quality cotton which can be imported from other countries such as India. Raising prices would encourage the production of cotton as well as the other strategic crops. He echoes the message that swift movement by the GOE on setting new prices is vital, particularly for wheat since the planting season will begin shortly. El Bastawisy stressed that the government needs to set clear policies for the agriculture cycle for the farmers to follow.

18. (SBU) COMMENT: Rural development and support for farmers is a key pillar in the NDP's agenda and platform as the 2011 elections draw nearer. In reality, the financial impact of procurement price hikes on farmers is limited, given that the majority of the wheat and corn grown in Egypt never leaves the farm. As a result, though GOE purchases are not insignificant--the GOE purchases about three million tons of wheat from local producers-- the impact on the agricultural sector of its pricing policies is more political than economic. Clearly though, the Egyptian inter-ministerial process isn't timed well with respect to planting, and further delays may dilute much of the political goodwill the price hikes might generate. Also, as the prices are generally well above world market prices, private sector end users will continue to rely on imported cotton, wheat, and corn. END COMMENT.

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